

Quote of the week : “The Fed has created a bull market alright - a bull market in complacency” - David Rosenberg (Chief Economist at Toronto-based money manager Gluskin Scheff & prior to that Merrill Lynch’s Chief North American Economist in New York) - *it is interesting to note in this context that in a recent WSJ front page article John Hilsenrath, often deemed to have been a sort-of unofficial mouthpiece cum trial balloon floater for former Fed Chairman Ben Bernanke, said the Fed are (finally) getting concerned yield-driven complacency about, & comfort with, risk in credit markets.*

Quote of the week #2: “When a woman thinks her house is on fire, her instinct is at once to rush to the thing she values most. It is a perfectly overpowering impulse ... A married woman grabs at her baby; an unmarried one reaches for her jewelry box.” - Arthur Conan Doyle’s Sherlock Holmes in A Scandal from Bohemia¹ - *So when the biomass hit the fan in 2008, the Fed’s gut instinct was to save Wall Street’s bonuses & that of the ECB to save its banks, with neither giving much thought what this meant the consumers & small businesses (the latter in the US including thousands of ‘Main Street’ banks) that are the bedrock of the economy.*

The Tempe, Ariz.-based ISM (Institute for Supply Management) produces a number of widely-followed economic indices. But its credibility suffered some when last Monday it produced, as usual at 10:00 a.m. on the first business day of the month, its Manufacturing Index (based on a survey of over 300 manufacturing firms), that came in at 53.2, down from 54.9 in April. But then, just a few minutes later, it announced its computer model had applied an incorrect seasonal adjustment & that the number should have been 56.0, a five months’ high. And then still later that day, the latter number was revised again to 55.4, slightly less than had been expected (it has since undertaken to henceforth check its numbers manually before making them public). Meanwhile, while on June 4th its Index of Non-Manufacturing Activity (i.e. the status of the service sector) came in at 56.4, up from April’s, & well above the expected, 55.5 while that same day the monthly estimate of private sector job creation by ADP, a human resources & payroll services firm, which predates by two days the more all-inclusive BLS number, for May came in at a disappointing 179,000, well below April’s 220,000 & the 215,000 expected. Meanwhile US bank lending is on a tear : it rose US\$26.7BN in the week ended May 21st, a rate of growth 40+% higher than the week before , & the 12th week in the last 13 it had expanded (at an average 9% annualized rate, with consumer credit having grown at an 8.1% rate, several times faster than at the beginning of the year) - *regardless of this the ‘velocity of money’ (of both M1 & M2) is hitting ever-lower all-time records (which is to be expected in a recession but almost unheard of in a recovery). If, and when, this reverses itself, as at some point it inevitably must, the amount of liquidity pumped into the system in the last five years could prompt a serious spike in inflation, far higher than currently in the Fed’s sights.*

A study by the San Francisco Fed, Janet Yellen’s alma mater, found that the effect of QE on GDP growth had been negligible (in the 0.13% range) for eight quarters, & zero thereafter - *it produced the wealth effect the Fed wanted but not the hoped-for boost in consumer spending.*

Last year the global junk bond market saw US\$366BN in new issues coming to the market, more than twice the amount in 2007, the year before the 2008 financial crisis. And two months ago Numericable, a French cable TV operator, set a new record when it sold the biggest-ever issue of junk bonds, US\$10.9BN equivalent, 25% more than it had originally planned². And if

¹ Quaintly dated in assuming married women have babies & unmarried ones jewelry boxes.

² Given the way technology is changing, one must wonder why anyone in full possession of his faculties would buy into a cable TV operator.

that were not enough to highlight the all-pervasive complacency where bond market risk is concerned, perhaps the PIK bond situation may do the trick. These bonds appeal to yield-greedy, risk-insensitive investors; for they typically provide a 0.50+% yield 'pickup over 'ordinary' junk bonds but don't pay interest in cash but in more bonds, are usually issued by marginal credits & expose buyers to an additional, & not inconsiderable, risk that upon maturity the issuer will default on their capital **and** their accumulated interest³. In 2007 the equivalent of US\$5.6BN in PIK bonds were sold, an amount that dwindled to next to nothing by 2010, whereas YTD in 2014 US\$4.2BN-equivalent of them have found buyers.

Following are three cautionary tidbits about the US stock market. While officially First Quarter corporate earnings were **up** 5.1% YoY, when inventory-, & depreciation charge-, adjustments are taken into account, they are said to have actually been **down** 8.1% YoY. Secondly, while equity investors are being comforted with mellifluous assurances that P/E (Price/Earnings) ratios are still within a reasonable range, they are not being told this is due in large part to the unprecedented volume of share buybacks corporate treasurers have been plowing their excess cash into [*with fewer shares outstanding, even if a company's profits stagnated, it would still be able to report higher EPS (Earnings Per Share), the critical denominator of the of the P/E ratio, because of the smaller number of shares outstanding*]. Last but not least, after rising inexorably for five years to all-time high levels, more than double those on January 1, 2009, NYSE margin debt has been declining in the past two months (*& there is a positive correlation between the rate of growth of NYSE margin debt outstanding & that of the S&P 500*).

A review of total pay awards for the heads of 15 major banks, incl. Goldman's Lloyd Blankfein & Lloyd's⁴ Antonio Horta-Osorio, for the Financial Times by US pay research group Equivar found that in 2013 they received an average US\$13.1MM, up 10.1% YoY⁵ (which more than offset the previous year's drop & raised it slightly above their 2011 levels). This came in a year the fines paid by these same banks were up 60% YoY to US\$48BN (much of it accounted for however by JPMorgan). On the other hand, their profits were also up 48%, & their shares, on average, appreciated by 18%-35%, depending on the index used.

Late last year the US Federal Pipeline and Hazardous Materials Safety Administration sent TransCanada two warnings letters about defects (incl. high rates of bad welds, dented pipe & damaged pipeline coating) & other construction problems encountered in the construction of the Southern part of its Keystone XL pipeline (between Oklahoma & the Gulf Coast⁶). To avoid a repeat performance thereof in case its Northern leg, if it were to get the go-ahead *after the*

³ According to the BIS, 30% of borrowers that had issued PIK bonds prior to 2008, the last time they were popular with yield-greedy investors, did in fact default.

⁴ While the UK government acquired a 43.4% interest in the bank in 2009, this has since been reduced to 25% which it hopes to eliminate in its entirety before the next election.

⁵ Largely due to big jumps in total compensation for the CEOs of major US banks that now hold down six of the seven highest-paid spots in the sample; for the EU has capped bonuses at 1x base salary (or 2x if shareholders approve, & they haven't been in much of an approving mood), while last year the bonuses of London-based US bankers with respect to 2012 ranged from a low of 3.3x to 5.4x base salary.

⁶ Thus supposedly in one week 72% of all welds, & in another week all welding work was stopped after it was found that almost half the welds done, required repair.

November election, the agency has informed the Company that in that case it must meet two more requirements. One is that it must hire (& *presumably pay?*) a third party chosen by the agency to monitor construction & report to the agency as to whether in its opinion the work done was sound & of an acceptable quality, and the other that it would have to adopt a quality management program to ensure “this pipeline is - from the beginning - built to the highest standards by both Keystone personnel and its many contractors.” - *the good news for Keystone XL proponents is that the agency must believe that there is a good chance the project will in due course get the green light & the bad news that these new requirements will give rise to significant incremental costs and, potentially, to serious delays (both from having to work slower & with more attention to detail & from possible halts to construction called by the third party inspector directly, or indirectly via the agency.*

Canada’s big cities have historically had bylaws governing the number parking spots to be included in new developments. Thus Toronto has long required a minimum 0.6 parking spots per housing unit in the downtown & as many as 2.0 in some other areas. But changing attitudes, especially among the younger generations, towards car ownership & suburban living are beginning to erode this. Thus a new 42-floor condo complex being built on Toronto’s University Avenue, the major downtown thoroughfare, received special City Council approval for only nine parking spots, all of them to be set aside for a car-share program. Calgary too is toying with approving a similar parking-free condo development. And Vancouver is actually moving to a new zoning law that would leave it entirely up to developers as to whether or not to have parking spots in their developments (*and if so, how many*) - *I just finished helping out with the city census & was amazed by the number of people of all ages, married & single, with or without children, who seem intent on spending the rest of their lives living downtown, so as to free up money & time to spend on other things.*

In January 2006 Hamas won the Palestinian elections & formed a unity government with Fatah with Hamas’ Ismael Haniyeh as Prime Minister. That ended seventeen months later, when after much discord with Fatah (accentuated by the Bush Administration’s refusal to accept the outcome of what by all accounts had been a reasonably fair & open election, even as it pushing democracy down the throats of the Iraqis & Afghanis), Hamas seized power in Gaza, prompting Abbas to fire the (*elected*) unity government & install a Fatah one. Since then there have been several attempts at reconciliation but none stuck; so no one paid much attention when last April 23rd the two did so once again in a deal brokered by Egypt, targeting to have a ‘government of national unity’ in place in six weeks, & hold *the several years overdue* presidential & parliamentary elections within six months thereafter. And, lo & behold, this time they actually were able to follow through, with two days to spare, when Abbas on June 2nd swore in a technocrat interim *caretaker* government of individuals without *formal* party affiliation who had been acceptable to both Fatah & Hamas to run the show until Presidential-, & Parliamentary-, elections can be held. It will be headed by Rami Hamdallah, a former university professor & president, and Prime Minister for the past year (who is deemed to have done a credible job both of the latter two jobs).

Some observers call this a “desperation”-, rather than a “unity”-, government. For Hamas’ position in Gaza was made untenable by the Egyptian military, after the overthrow of President Morsi, limiting traffic through the Egypt-Gaza border crossing point at Rafah &, more importantly, choking off more & more of the traffic through the myriad of underground tunnels between Gaza into Egypt that for years had permitted enough goods, incl. weapons & even live cattle, to be smuggled in to circumvent Israel’s economic “garrote” of Gaza & allow a modicum of a standard of living for the people of Gaza to be maintained - *thus the action of the Netanyahu government itself & of the Egyptian military have combined to bring about*

Netanyahu's worst nightmare, a reconciliation between Fatah & Hamas (that going forward he therefore will do his utmost to try & split asunder).

A clever move by the Palestinians. It will put Netanyahu c.s. (& Washington) on the spot; for nowhere in the government is a Hamas member to be seen. And it may set the stage for a similar approach in any upcoming election, with no one formally running on the Hamas-, or other party-, ticket. While Washington seems to have decided to make the best of a bad situation & to go along with what may be a charade (*until it can find an excuse to bail*), Netanyahu seems intent on once again overplaying his hand & to have forgotten that, if one finds oneself in a hole, the first priority is to quit digging (*although, being the wily & ambitious politician he is, he may just be posturing until he thinks the moment is right to 'do a 180'*). Meanwhile a potential hurdle may face the new Palestinian cabinet; for the US Congress earlier voted to restrict the use of its US\$500MM in funding for the PA in case of a unity government involving Hamas (although Kerry maintains imposing such restrictions are contingent on the Administration deterring "undue influence by Hamas in any way ... at the moment we don't have that").

On Sunday June 1st a plane carrying Israeli President Shimon Peres to Oslo for an official visit was denied permission to enter Swedish airspace. This led to his office accusing Sweden of negligence & obstructionism while the Swedes maintained that the private company that had made his travel arrangements had failed to follow the appropriate protocol.

China-born, but since age 12 Hongkong-based, primary school drop-out Jimmy Lai (now aged 66), & his Next Media media empire, that includes Hongkong's second largest daily newspaper, Apple Daily, have been a thorn in Beijing's side ever since Tiananmen Square days (if only because he once referred in a column to the Communist Party of China as "a monopoly that charges a premium for lousy service"). So, while it is therefore not surprising that no China SOE ever advertised in his papers, it is surprising, & disconcerting, that since last September the HSBC & Standard Chartered banks, once his biggest financial sector advertisers, have been conspicuous in their absence among his advertisers – *did they 'get the word'?*

GLEANINGS II - 565
Thursday, June 5th, 2014

FRANCE SAYS MOOTED BNP PARIBAS \$10 BILLION FINE⁷ 'UNREASONABLE'
(Reuters, John Irish et. al.)

⁷

Almost as much as its 8.2BN Euro (US\$11.2BN) pre-tax income for the entire year 2013.

- This is the fine the US is said to be now considering to impose on France's largest bank for having enabled Sudan, Iraq & Syria to evade US sanctions between 2004 & 2009 by removing identifiers from their wire transfers that enabled them to pass through the US financial system without raising red flags. BNP shares have lost 6+BN Euros in market cap in recent weeks *as this number started making the rounds*, due to concerns that such a huge fine will affect its ability to pay dividends, make loans & raise new capital.

The US was earlier said to have been thinking of a US\$16BN fine (while the bank had made a US\$1BN provision). If this were to go forward it will further strain a French-US relationship that has already suffered from US' inaction in Syria & France's insistence to proceed, despite events in Ukraine, with its US\$1.2BN sale of two Mistral class helicopter carrier ships to the Russian Navy. And there can be little doubt that President Hollande, with record low levels of public support in the polls & smarting from a humiliating defeat in the European Parliament elections [his (Socialist) party was a distant third to Marie Le Pen's ultra-right wing-, & Nicolas Sarkozy's right-of-centre-, parties, with 14% popular support vs their 25% & 20% respectively], will bring this up as he meets with Obama when the latter is in France for the 70th anniversary of D-Day.

FED MAY SHUN GLOBAL RISK RULES BANKS SPENT BILLIONS TO MEET (Reuters)

- Under the so-called 'Basel III capital rules' banks can determine how much debt they can take on by using their own models & computer systems to calculate how risky their assets are (the riskier, the less they can borrow). Last month, in a speech 'expressing personal views' (that, however, seem shared by at least some of his colleagues), Fed Gov. Daniel Tarullo, questioned this, & now Fed officials, concerned the Basel III rules, as they stand, would allow banks to "game" them, are considering scrapping them in favour of its own "stress testing".

The banks are, of course, up in arms about this, the more so since the Fed won't give them details about its stress testing methodology (likely justifiable so, since, if they did tell the banks, they would likely game its stress tests as well).

MORGAN STANLEY CEO : INVESTMENT BANKING IS OVER (CNBC NetNet)

- James Gorman told a conference in Manhattan this week the investment banking industry “for all intents and purposes has disappeared” since the Fed’s oversight as to how the banks fund their operations has become increasingly strict⁹. So his firm has all dropped out of its *one-time* race with Goldman Sachs in investment banking to concentrate more on wealth & asset management which is less capital intensive & produces steadier revenue (& profit) flows¹⁰. (this, he said was also why his firm, & other banks had commodities trading : it pre-empted too much capital for too small returns).

Six months ago he told an audience at the Columbia Business School, his alma mater, that investment banks play a role “smaller community banks can’t perform.”

SEATTLE APPROVES HIGHEST U.S. MINIMUM WAGE (Bloomberg, Mike Kane)

- On June 2nd its City Council unanimously approved a US\$15/hour minimum wage that will exceed San Francisco’s US\$10.74 & its own Washington State’s US\$9.32.

It makes for a nice attention-grabbing headline but, as so often the case, the ‘soup is never eaten as hot as it is served’. In this case this means that it will be eased in over 3-7 years depending on the size of the business & the level of employee benefits it provides, and that there will be a lower minimum wage threshold for teenage workers (who constitute a significant share of those working for the minimum wage).

SUICIDE BOMBER KILLED IN IRAQ PART OF A JIHADI BASE IN CALGARY (CBCNews)

- Salman Ashrafi was a Canadian citizen raised in Calgary, educated at the University of Lethbridge (where he took management & organized anti-racism rallies) who worked at ‘oil patch’ firms. He was described an acquaintance as having two sides to his personality, one a kind & gentle one, and the other with a simplistic, black & white view of the world (he once told friends the only way to live with non-Muslims was to convert or subjugate them and, *if all else failed*, to move to a ‘land of Islam’). He ended his life last November as one of two perpetrators of a double suicide bombing in Iraq that killed 46 people orchestrated by an al-Qaeda splinter group known as ISIS (Islamic State of Iraq and Syria) so extreme it has been disowned by mainstream al-Qaeda.
- He is one of two dozen young men from Calgary who in the past two years went to Syria to join wage jihad, & more specifically one of five who left Canada about the same time in late 2012, and had lived in the same apartment building in Calgary, eaten at the same restaurants & prayed at the same mosque. One local imam says he knows who had been behind their radicalization & that he shared this knowledge with police & university administrators without getting any response (although he did receive death threats for doing so). The official word from the RCMP is it continues to “monitor the issue of Canadians going abroad to participate in terrorism-related activities ...”.

⁹ Which means that the competitive edge that firms like Goldman & Morgan Stanley once had over the ‘universal’ banks like Citigroup & JPM, by being less strictly regulated, has now vamoosed.

¹⁰ Thus in the First Quarter US\$4.3BN (i.e. 48%) of its total US\$8.9BN in revenues came from its wealth/asset management operations, nearly 3x the 18% of eight years ago.

The police may be worried being too pro-active in this matter may cause it to be accused of racism and/or of giving the Prime Minister' home town a bad name.

ISRAEL 'DEEPLY DISAPPOINTED' US WILL WORK WITH NEW PALESTINIAN GOVERNMENT (Haaretz, Barak Ravid)

- Senior Israeli officials said on June 2nd (after *the announcement of the new Palestinian government*) "We are deeply disappointed by the comments of the US State Department regarding working with the Palestinian unity government", going as far as blaming the US for setting back the peace process. Furthermore, "This Palestinian government is ... backed by Hamas, which is a terror organization committed to Israel's destruction ... If the US administration *really* wants to advance peace, it should be calling on Abbas to end his pact with Hamas and return to peace talks with Israel. Instead it is enabling Abbas to believe that it is acceptable to form a government with a terrorist organization."
- That same day Israel's Security Cabinet decided it won't negotiate with the new government & will oppose Hamas' participation in the Palestinian elections if & when they are to take place, & that "Israel will work, including in the international arena, to oppose the participation of terrorist organizations in the election". And Netanyahu told the Knesset Committee on Foreign Affairs and Defense Israel "would not allow" the Palestinian Authority to conduct either its presidential or its parliamentary elections in East Jerusalem, if the Fatah-Hamas unity government were in fact to lead to such elections being held within the next few months, as called for in their reconciliation deal.

Netanyahu ignores the fact that one in five Israelis is just as opposed to a Palestinian state as he says Hamas is to a Jewish homeland¹¹ and that one of his predecessors, Menachem Begin, headed the Irgun Gang, branded as "terrorist" by the British even before it blew up, in 1946, the King David Hotel In Jerusalem, killing 91 & injuring 46 more¹², and the fact that since WW II at least four one-time terrorist leaders have become national leaders (Kenyatta, Mugabe, Mandela & Gerry Adams). As to complicating life for the unity government in the international arena, according to Riyadh Mansour, the PA's permanent observer at the UN for almost a decade, "not a single nation has heeded Israel's futile call to boycott the new government", while UN Secretary General Ban Ki-moon has pledged the UN's "full support" to the new government.

KERRY SAYS US TO WORK WITH, MONITOR THE NEW PALESTINIAN GOVERNMENT (Reuters, Sharif Karim)

- *Two days after the above*, on June 4th, Kerry¹³ confirmed the US would work with the new Palestinian government "as we need to", while monitoring its ongoing commitment

¹¹ As the Bible puts it "Why do you see the speck that is in your brother's eye, but do not notice the log that is in your own eye?" (Matthew 7 : 3).

¹² But nevertheless, in 1979, as Prime Minister was instrumental in making peace with Egypt (for which his Egyptian counterpart, Anwar Sadat a couple of years later paid with his life.

¹³ Who created a media firestorm for saying, in Washington on April 28th at a 'behind closed doors' meeting of the Trilateral Commission, an informal group of public- & private sector decision makers from the US, Western Europe, Russia & Japan, that, lacking a two state solution, Israel risks becoming an "apartheid state", a tag that, while used in the past by (opposition) Israeli politicians had hitherto been studiously avoided by any & all US public officials.

to continued cooperation with Israel. He said Abbas had assured him the new government was committed to *the three principles demanded by the US*, non-violence, peace negotiations with Israel¹⁴ & observance of all existing accords, incl. cooperation on security. And, *in a seeming attempt to assuage Netanyahu's feelings*, he acknowledged the latter had warned him on June 1st against *joining in any precipitate* international rush to recognize the new Palestinian government by saying that working with the new government didn't mean recognizing it, saying, "Let me be very clear¹⁵"; the US does not recognize a government with respect to Palestine, because that would recognize it as a state, and there is no state ... This is not an issue of recognition of a government" (*all of which is, of course, totally disingenuous & utter nonsense*).

This episode seems to bear out the validity of an earlier observation in Haaretz that 'the Israeli habit of (routinely) criticizing Obama's policies has fallen victim to the law of diminishing returns -: the more it protests, the less it matters'.

CHINA'S PREMATURE POWER PLAY GOES VERY WRONG **(The National Interest, Rory Medcalf)**

- These are times of mounting drama & tension in China's rise to prominence. Chinese & Vietnamese vessels jostled each other around a Chinese oil rig in contested water, as anti-Chinese riots in Vietnam turned deadly. Chinese ships blockade a (*tiny*) Philippine garrison on a contested shoal as Beijing rejects Manila's bid for international arbitration¹⁶. Chinese & Japanese planes play tag as Chinese & Russian warships are on joint exercises on the sea below them. Prime Minister Abe offers his country as a security partner for *smaller* nations troubled by China throwing its weight around, as US Defense Secretary Chuck Hagel warned against China's coercion & intimidation. Moscow & Beijing proclaimed a new energy alignment. And in Shanghai President Xi sought to elevate the summit of a hitherto little-known organization¹⁷ to a totally new status. So the outlook for Asia's security environment looks bleak.
- But if Beijing is seeking to rattle America & others, especially Japan, Philippines & Vietnam, it may be miscalculating & its premature display of confidence may be doing its long-term interests more harm than good. Deploying the rig in Vietnamese waters was an attempt to create a precedent & Vietnam was a logical target because, like Ukraine, it was not a US ally. But Vietnam has proven to be a more resilient opponent than Beijing had expected in part because, while it tried to play up Vietnam's economic dependence

¹⁴ Which in the short run may be akin to the clapping of one hand, since it takes 'two to tango' & the Israeli government, at least for the moment & in its current composition, is in no mood to dance.

¹⁵ Which is "diplo talk" for "Don't believe a word of what I am going to say next."

¹⁶ Because it is well aware that under existing international law & law of the sea, it doesn't have a leg to stand on (for which it, of course, blames its developed country heritage).

¹⁷ The Conference of Interaction and Confidence Building in Asia (CICA) founded 25 years ago by Kazakhstan which looks more like a anti-US gathering than a full-fledged Asian confab has more of the trappings of an anti-US group, including countries like Iraq, Iran & Egypt (that is not even located in Asia) while excluding more US-friendly nations like Japan, Philippines & Indonesia

on China, the reality is that Vietnam is more tied in with other Asian markets (& with the West?) than with China. And now the nations around the South China Sea, & beyond, no longer harbour any illusions as to how a stronger China of the future would behave; so they are more likely to seek greater security links with the US & Japan & invest more in their own defence (which includes Hanoi buying submarines from Russia, Beijing's new ally). And Vietnam may now join the Philippines fighting China's territorial claims in court.

The new Russia-China alliance faces more hurdles than many people realize. First & foremost, Putin has no desire to become President Xi's junior partner, and those who think India might be enticed into a troika of nations that would challenge the US for world hegemony don't appreciate that its ambitions don't include playing second fiddle to Beijing either. Secondly, Russia has been proven to be an unreliable supplier and, big & important as its new contract with China has been made out to be, it involved major price concessions by Moscow & in a global context is no big deal (in addition to that, there is no guarantee that Russia will have the money, or the skill base, to expand its oil & gas sector as much as Putin appears to anticipate). Thirdly, the two countries share a long 'undefended border (on which during the Soviet/Mao era, division-sized military confrontations took place), and Beijing has long cast covetous eyes on Siberia, with its 'Lebensraum' & resource wealth, while Moscow has become increasingly concerned about China's creeping de facto colonization of parts of Eastern Siberia. Fourthly, both have the same demographic problem, aging & stagnating, or in the case of Russia declining, populations, and rising age-dependency ratios that will generate head winds for their future growth. Last but not least, while Beijing may scoff at the international law of the sea framework as it stands, the fact remains that its future wellbeing will depend on order in the global sea lanes, especially in the Strait of Malacca & South China Sea.

CHINESE MEDIA CALL FOR "SEVERE PUNISHMENT" FOR TECH FIRMS (Reuters)

- Last year Edward Snowden revealed the NSA (*routinely?*) seized data from companies like Google & Apple in the context of a surveillance program code named PRISM (*launched in 2007 following the passage of the Protect America Act*). So on June 4th the China Daily called on Beijing "to punish severely these pawns" of the US government for monitoring China & stealing its secrets, and threatening its cyber-security & its Internet users, saying "U.S. companies, including Apple, Microsoft, Google, Facebook etc. are all coordinating with the PRISM program to monitor China ... to resist the naked Internet technology, we will draw up international regulations (???) and strengthen technology safeguards, but we will also severely punish the pawns of the villain." And it is a fact that in the past year Chinese firms have started relying less on companies like IBM, Oracle & Cisco & more on domestic technology firms, potentially costing the former millions of dollars in lost revenues¹⁸, that Beijing has prohibited the installation of Windows 8 on all government computers, and that last December Google, Microsoft, Amazon, Facebook, Yahoo & others addressed an open letter to President Obama & Congress to reform, & impose restrictions on, the NSA's surveillance activities.

Even if China's cyber spying was only half as good as we have been let to believe, Snowden's revelation wouldn't have been news to them. So this outburst of China Daily pique was likely prompted by the US recent 'outing' of five Chinese military officers for stealing US corporate information. David Drummond, Google's Chief Legal Officer went on record as saying "We

¹⁸ Which could grow far worse once the local firms gathered critical mass & started expanding into a market in which US firms have hitherto had a virtual monopoly.

cannot say this more clearly¹⁹ - the (US) government does not have access to Google servers - not directly, or via the backdoor, or a so-called 'drop box', only then to spoil the effect (as he may have been legally bound to do), by adding "We provide user data to governments only in accordance with the law." (note the use of the plural in the case whom it provides data to).

INDIA MAY SPARK NEW COMMODITY SUPER CYCLE (NBCNews)

- According to HSBC economists Paul Bloxham & Frederic Neumann if India's new Prime Minister, Narendra Modi, were to increase *much-needed* investment in infrastructure, demand for key commodities could *once again* outpace their supply, setting off another round of price hikes. In a recent study they noted "It is worth remembering how quickly commodity demand from China ramped up a decade ago and then began to outpace supply", prompting what analysts now refer to as a "supercycle". Urbanization in India lags China's. Fewer people in India live in homes constructed from enduring building materials. The electricity-, & transportation-, sectors have long suffered from under-investment. And if Modi can repeat on a national scale his success in moving Gujarat state into manufacturing, the demand for industrial equipment would soar. Last but not least, China became a major commodities importer in 2003, twenty-five years after it had introduced major reforms, and for India this is Year 23 after its major reforms in 1991.
- But others aren't convinced. Some doubt Modi can bring about the much-needed reforms in labour markets, land use & subsidies. Others think the scale of its commodities' needs will be nowhere near what China's were. Still others worry the slowdown in demand emanating from China will more than offset its growth from India.

The doubting Thomases may overestimate the future decline in demand from China, despite its stagnating & aging population, & underestimate the latent demand from India with its rapidly growing population & its GDP growth-boosting low age-dependency ratio. And Modi may have 'put a mark on the wall' of impending change for India when he, the leader of a nationalist Hindu party (who nevertheless got a significant slice of India's Muslim vote) took advantage of the, by Indian standards overwhelming, popular support for him at the polls to invite Nawaz Shariff, the Prime Minister of Pakistan, to his inauguration on May 26th (an invitation the latter accepted, whereas last year, when Shariff was being inaugurated & invited Modi's predecessor, Manmohan Singh, the latter had found it politically difficult to accept his invitation).

¹⁹ See footnote 14 above.